



Final Minutes

Endowment Fund Investment Regular Board Meeting

May 16, 2017

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise, Idaho on May 16, 2017. Chairman M. Dean Buffington called the meeting to order at 9:29 a.m. and recognized that a quorum was present. The meeting was preceded with members attending a portion of a Land Board meeting.

Member's Present:

Dean Buffington
Jerry Aldape
Representative Anderson
Warren Bakes
Mary E. Hughes (arrived 9:39 a.m.)
Gary Mahn
Richelle Sugiyama
Senator Winder (via telephone 9:29 a.m. – 11:24 a.m.)

Member's Absent:

None

Staff Present:

Larry Johnson
Chris Halvorson
Michelle Watts
Liz Wieneke

Legal Counsel:

Julie Weaver

Guests:

Janet Becker-Wold, Callan
Tom Schultz, IDL
Kari Kostra, IDL
Ray Houston, LSO Budget Analyst
Susan E. Buxton, DHR
Paul Spannknebel, DHR
Joe Webber, DHR

Hard copies of board materials were mailed and delivered 7 days prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning May 9, 2017.

Mr. Buffington reported that Mr. Johnson and he had lunch with Ms. Judy Shock, recently retired EFIB staff member, and presented her with a service award.

Mr. Buffington reported that the Board delegated to the Compensation Committee the duty of conducting a personnel review for the Manager of Investments, Mr. Larry Johnson, and providing a salary recommendation that is forwarded to the Governor for approval. Senator Winder, Mr. Bakes, and Mr. Buffington met on May 12, 2017 at 9:00am, conducting the review of Mr. Johnson in Executive Session. Following the Executive Session, Mr. Bakes made the motion and Senator Winder seconded the motion, to increase Mr. Johnson's salary by 4.0% with an

effective date of June 18, 2017, and the vote passed unanimously. Representatives from the Division of Human Resources and the Governor's budget office attended the meetings as advisors.

Mr. Buffington recognized the two new Board members, Jerry Aldape and Mary E. Hughes, and made their committee assignments: 1) Jerry Aldape to the Audit Committee and, 2) Mary E. Hughes to the Compensation Committee. A news release has been published for the two new members.

One vacancy remains on the Board and the open position on the Executive Committee has not yet been filled.

Mary E. Hughes arrived at 9:39am.

Board Meeting Minutes:

Ms. Sugiyama made a motion that the minutes of the February 15, 2017 regular meeting be approved as submitted. The motion was seconded by Mr. Bakes and approved unanimously.

Recent Endowment Fund Results

Mr. Halvorson reported the Endowment Fund's performance was up 1.3% for the month of April, 10 bps over benchmark. On a fiscal year to date basis, the Endowment fund is up 10.6%, 30 bps below benchmark. He also reviewed month-to-date performance results for Parks & Rec., DEQ, and Fish & Game.

Capital Market Assumptions and RVK Peer Group Comparison

Mr. Halvorson presented information on Capital Market assumptions from various sources. Most forecasters expect equities to perform as well as, or better than bonds which supports the Endowment Fund's heavy commitment to equities. The board discussed the implications of the charts presented.

Mr. Halvorson reviewed a comparison of public funds prepared by RVK, including one which shows that total cost of management by the EFIB is competitive with funds of a similar size and larger. The Board asked Staff to revisit fees with managers to see where additional savings might be possible.

Fund Performance – Janet Becker-Wold, Callan

Endowment Fund: The endowment portfolio posted a 4.9% return for the quarter ended March 31, 2017, 30 basis points above benchmark. Relative to Public Fund Peers, the fund ranked 17th percentile for the quarter, 41st for the year ended March 31, 2017. Compared to the Endowment and Foundation Universe, the fund ranked 36th percentile for the quarter, 49th percentile for the year, and 8th percentile for the last 10 years.

State Insurance Fund: The SIF portfolio posted a 1.5% return for the quarter ended March 31, 2017, 2.5% for the 12 months and 3.0% for the last five years. The fund outperformed its benchmark for the quarter, the year, and the last five years.

Discussion of Investment Manager Due Diligence Visits

Mr. Johnson and Ms. Becker-Wold discussed recent manager due diligence visits. Following discussion, the EFIB asked Mr. Johnson and Ms. Becker-Wold to provide, in July, recommended actions for consideration at the August meeting.

Land Board Distribution Policy – FY 2019 Distributions

Mr. Johnson provided an advance look at FY 2019 distributions based on the fund balances and coverage ratios as of March, 2017. Strong real returns in the fund (9%) and above average land revenues have kept reserves strong

and pushed all endowments above their principal adjusted for inflation (Gain Benchmark), providing the opportunity for increases in distributions. The net result is a potential overall increase in total distributions of 4.0%.

Given the uncertainty in future income introduced by sales of cabin sites for State Hospital and Normal School and expected low timber sales for Charitable, staff tentatively recommends no increase in distributions for those three endowments.

Mr. Johnson stated that for August, staff will update the analysis with year-end fund results and the IDL's latest ten-year land revenue forecast.

Mr. Johnson reviewed the Land Board's Distribution Policy and recommended no changes be made. Ms. Sugiyama suggested a change to the Summary of Principles in the Appendix to the Policy

Ms. Sugiyama made a motion to recommend to the Land Board that no changes be made to the Land Board's approved Distribution Policy. The motion was seconded by Senator Winder and approved unanimously.

Mr. Johnson called attention to a page distributed after the main board materials which summarizes the differences in distribution policies for the EFIB's clients.

Capitol Permanent Endowment Distribution

Ms. Watts presented the Capitol Permanent Endowment Fund distribution recommendation. She stated that staff has evaluated the sustainability of the current 5% policy using two scenarios with future annual fund returns of 6.4% and 0.0%. She concluded that per the current 5% policy, \$1,392,000 is sustainable for the upcoming distribution in FY 2018 (assuming a recovery in land revenues by 2020).

Mr. Anderson, who serves on the Capitol Commission, explained that a withdrawal from the Maintenance Reserve Fund of around \$1 million will likely be needed to repair damage caused by last winter's extreme weather.

Representative Anderson made a motion that a distribution of \$1,392,000 be made from the Capitol Permanent Fund to the Maintenance Reserve on July 1, 2017. The motion was seconded by Mr. Mahn and approved unanimously.

Senator Winder departed the meeting at 11:24 a.m.

Manager of Investments Transition Plan

Mr. Johnson presented a detailed Manager of Investment transition plan including key dates, a salary range, a proposed job posting, and an advertising/job posting plan. Ms. Buxton also provided counsel on key issues for the Board's consideration. The EFIB discussed the plan and offered some suggestions and edits.

Representative Anderson made a motion to approve the job posting for the Manager of Investments as submitted with the changes suggested. The motion was seconded by Mr. Aldape and approved unanimously.

Ms. Sugiyama made a motion to approve up to \$3,000 for advertising for the Manager of Investments posting as submitted with the changes suggested. The motion was seconded by Ms. Hughes and approved unanimously.

At 12:10pm, the Chairman called for a 20 minute break for lunch. The meeting resumed at 12:30pm.

Board Compensation Legislation

Mr. Johnson presented board compensation comparison information and recommended that a legislative proposal to increase the rate be submitted to the Governor's Office. The Board discussed the issue but no motion was made.

Updates to Land Board's Statement of Investment Policy – Land Grant Endowments

Mr. Johnson presented changes proposed by Staff and the IDL to the Land Board's Statement of Investment Policy for the Land Grant Endowments, which encompasses both the land and the fund. The Policy, established last year, is to be reviewed annually. Staff and the IDL would like the EFIB to review the proposed changes before they are presented to the Land Board at its June meeting.

The Board discussed the Policy with Mr. Schultz and Mr. Johnson and suggested one change.

Ms. Sugiyama made a motion to endorse the proposed changes to the Land Board's Statement of Investment Policy. The motion was seconded by Mr. Bakes and approved unanimously.

Committee Assignments

Chairman Buffington made two committee assignments: 1) Jerry Aldape to the Audit Committee and, 2) Mary E. Hughes to the Compensation Committee.

Due Diligence Process for Real Estate

Mr. Halvorson presented the plan for ongoing due diligence/monitoring of the two real estate managers recently retained by the EFIB.

Risk Analysis and Reconciliation System

At the previous board meeting, Staff was asked to explore the risk analysis and reconciliation system offered by Clearwater Analytics. Staff met with Clearwater, but recommended further consideration by the EFIB be tabled, at least for now, until Staff can dedicate time to explore competing products. The Chair asked Staff to give an update on the expected timing of this work at the next meeting.

Actions of the Compensation Committee

Mr. Johnson reviewed the Compensation Matrix approved by the Compensation Committee. He also distributed his proposed goals for the remainder of 2017. He explained that the Land Board has requested that IDL and the EFIB commission Callan to do additional analysis of the optimal land/fund asset mix for the smaller endowments and, if necessary, adjustments to their distribution policy. Callan is working on a proposal.

EFIB Staff Reports

Mr. Halvorson reviewed the performance reports of the Parks and Recreation endowments. Fiscal year-to-date through April 30, 2017, Trail of Coeur d'Alene's and Ritter Island are up 10.9%. Fiscal year-to-date through March 31, 2017, the Bunker Hill Water Treatment endowment, the Fish & Game Stewardship Endowment, and the Fish & Game Trust Endowment are up 9.3%.

Ms. Watts reported on the Quarterly Financial Statements, Expenses vs. Budget, Coverage Ratio and YTD Land Revenues.

Mr. Johnson reported on Housing Starts, Inland Lumber Price, Stumpage Price, and the Gift Log. Representative Anderson asked for additional information about an item in the Gift Log.

Mr. Halvorson presented the quarterly activity of the School Bond Guaranty program and the annual report from Superintendent of Public Instruction's office on the financial strength of Idaho's school districts. There are no districts which cause Staff any concern.

Mr. Johnson discussed Upcoming Issues for the August 11, 2017 board meeting. Ms. Sugiyama asked Staff to present options related to a consulting arrangement for the non-land grant endowments.

Adjournment

There being no further business to come before the Board, Ms. Sugiyama made a motion to adjourn, which was seconded by Representative Anderson and passed unanimously.

The meeting adjourned at 1:36 p.m.